INTER CA – MAY 2018

Sub – Accountancy & Law

Topic – Company Final Accounts, Profit Prior to incorporation, Single Entry System, Dissolution, The Negotiable Instruments Act.

Test Code – M2

Branch: Multiple Date:03.12.2017

(50 Marks)

Note: All questions are compulsory.

Question 1 (8 Marks)

Tejasvi (P) Limited

Profit and Loss Account for 15 months ended 31st March, 2016

	Pre. inc. (5 months) (`)	*Post inc. (10 months)* (`)
Sales (W.N.1) (1/2 mark)	3,00,000	16,80,000
Less: Cost of sales(1/4 mark)	1,80,000	10,08,000
Discount to dealers (1/4 mark)	7,000	39,200
Directors' remuneration (1/4 mark)	-	60,000
Salaries (W.N.2) (1/2 mark)	18,750	71,250
Rent (W.N.3) (1/2 mark)	15,000	1,20,000
Interest (W.N.4) (1/2 mark)	30,000	75,000
Depreciation(1/4 mark)	10,000	20,000
Office expenses(1/2 mark)	35,000	70,000
Preliminary expenses(1/2 mark)		15,000
Net profit(1/2 mark)	4,250	2,01,550

Purposes for which pre-incorporation profits and losses can be used are as follows: (1 ½ Marks)

Pre-incorporation Profits can be used for:	Pre-incorporation Losses can be used for:
• writing off Goodwill on acquisition • writing off Preliminary Expenses • writing down over-valued assets • issuing of bonus shares • paying up partly paid shares.	• setting off against Post-Incorporation Profit • addition to Goodwill on acquisition • writing off Capital Profit

Working Notes:

1. Calculation of sales ratio (1/2 mark)

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation)	= x X 5	= 5x
Sales (Post incorporation) from June to December, 2015	= 2½x X 7	= 17.5x
From January to March, 2016	= 3½x X 3	= 10.5x
Total Sales		28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries (1/2 mark)

Let the average salary be x			
Pre-incorporation salary	=	x X 5	= 5x
Post incorporation salary			
June, 2015	=		x
July to March, 2016	=	x X 9 X 2	= 18x
			19x

Ratio is 5 : 19

3. Calculation of Rent(1/2 mark)

		`
Total rent		1,35,000
Less: Additional rent for 9 months @ ` 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent	—	90,000
	15,000	1,20,000

4. Calculation of interest(1/2 mark)

Pre-incorporation period from January, 2015 to May, 2015

$$\frac{6,00,000 \times 12 \times 5}{100 \times 12} = \text{` } 30,000$$

Post incorporation period from June, 2015 to March, 2016

$$\frac{9,00,000 \times 10 \times 10}{100 \times 12} = \text{` } 75,000$$

` 1,05,000

Question 2 (12 Marks)

1.Statement of Affairs as on 31.12.2012 (Opening Balance Sheet) (4 marks)

Capital Liabilities	Rs.	Properties and Assets	Rs.
Raju's Capital (balancing figure)	69,850	Current Assets:	
Non-Current Liabilities: Loan from Mrs. Raju	5,000	Stock in Trade –at Cost $\left(47,500 \times \frac{100}{95}\right)$	50,000
Current Liabilities		Sundry Debtors	20,000
Trade Creditors	6,000	Cash in Hand and at Bank	12,600
Outstanding Expenses	1,600		
Interest P'ble(on 5,000 for 3 months at 12%)	150		
Total	82,600	Total	82,600

2.Statement of Affairs as on 31.12.2012(Closing Balance Sheet) (2 marks)

Capital Liabilities	Rs.	Properties and Assets	Rs.
Raju's Capital (balancing figure)	53,850	Current Assets:	
Current Liabilities:		Stock in Trade –at Cost $\left(6{,}000\ \times \frac{100}{125}\right)$	48,000
Bank Overdraft –Secured against property	12,000		
Trade Creditors	10,000	Sundry Debtors (28,800-Insolvent 600)	28,200
Outstanding Expenses	600	Cash in Hand and at Bank	250
Total	76,450	Total	76,450

3. Statement of Profit for the period 1.1.2013 to 31.12.2017 (Capital Comparison Method) (4 marks)

Particulars			Rs.
	Capital as on 31.12.2017 as per Statement of Affairs(WN2)		53,850
Add:	Drawing /Payments which are sourced from Business Profit-		
	Drwaing during the period (Rs.24,000 x 5)	1,20,000	
	Purchase pf Property (Advance 8,000 + Balance 32,000 +Registration 7,500)	47,500	
	Purchase of Jewellery and Marriage Expenses of Raju's daughter (15,000+24,000)	39,000	
	Purchase of New DVD Player for presentation to Raju's friend	18,000	2,24,500
	Total of above		2,78,350
Less:	Capital as on 31.12.2012 as per Statement of Affairs(WN1)		(69,850)
	Net Profit for the five Year Period		2,08,500

Note : If Property is taken as Business Asset on 31.12.2017, it will not be shown as an Addition in WN 3.Instead ,Capital Balance as on 31.12.2017 will be Rs. 1,01,350, after including the Property as Business Asset.

4. Annual Profit and their differences with reported Profits (2 marks)

Year ended	Apportionment Ratio	Annual Profit	Profit reported to Bank	Difference
31.12.2013	3	25,020	20,000	5,020
31.12.2014	4	33,360	32,000	1,360
31.12.2015	4	33,360	35,000	(1,640)
31.12.2016	6	50,040	48,000	2,040
31.12.2017	8	66,720	55,000	11,720
Total	25	208,500	190,000	18,500

Question 3 (12 Marks)

1. Realisation A/c (7 marks)

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c (transfer)	4,56,300	By Sundry Creditors A/c (transfer)	5,67,000
To Plant & Machinery A/c(transfer)	6,07,500	By Joint Life Policy Reserve A/c(transfer)	2,65,500
To Furniture A/c (transfer)	64,650	By Cash –Joint Life Policy (surrender amt recd)	2,32,500
To Stock A/c (transfer)	2,36,700	By Ram Capital A/c (Goodwill, P&M)	9,00,000
To Sundry Debtors A/s (transfer)	5,34,000	By Ram Capital A/c(Furniture & Stock)	1,80,000
To Joint Life Policy A/c(transfer)	2,65,500	By Sugriv Capital A/c Furniture & Stock)	1,80,000
To Ram Capital A/c(Dissolution Exps)	18,000		
To Cash (Bill Discounted settled)	30,750		
To Capital A/c(Profit on Rsn) (3:2:1)			
- Ram 55,800			
- Sugriv 37,200			
- Hanuman 18,600	1,11,600		
Total	23,25,000	Total	23,25,000

Note :- No entry required for –(a) assignment of Debtors to Creditors ,and (b) Nothing Charges.

2. Partners' Capital A/c (3 marks)

Particulars	Ram	Sugriv	Hanuman	Particulars	Ram	Sugriv	Hanuman
To Realisation A/c -G/W, P& M	9,00,000	-	-	By balance b/d	4,20,000	2,25,000	1,20,000
-Furniture ,Stocks	1,80,000	1,80,000	-	By Bank Overdraft	6,06,450	-	-
To Hanuman Capital (Note)	6,840	4,560	-	By Mrs. Ram Loan	1,50,000	-	-
To Cash	-	-	1,50,000	By Realisation (Exp. On Dissolution)	18,000	-	-
To Cash (bal.fig.)	1,63,410	77,640	-	By Realisation Profit	55,800	37,200	18,600
				By Partner's Capital - Ram - Sugriv			6,840 4,560
Total	12,50,250	2,62,200	1,50,000	Total	12,50,250	2,62,200	1,50,000

Note: Excess amount paid to Hanuman Rs. 11,400, i.e. Actual Payment Rs. 1,50,000 Less Net Credit Balance in Capital Account Rs. 1,38,600 , has been debited to Ram and Sugriv in the ratio of 3:2.

3. Cash A/c (2 marks)

Receipts	Rs.	Payments	Rs.
To Balance b/d	48,750	By Realisation (Bill Dishonored settled)	30,750
To REalisation (Joint Life Policy realised)	2,32,500	By Partners Capital A/c(Final Settlement)	
To Commission Receivable	1,40,550	- Ram	1,63,410
		- Sugriv	77,640
		- Hanuman	1,50,000
Total	4,21,800	Total	4,21,800

Question 4 (8 Marks)

1. Computation of Net Profits (4 marks)

Particulars	`	`
Add: Balance from Trading Account		38,35,414
Interest on Investments		10,964
Transfer Fees Received		537
Profit on Sale of Plant		8,000
Total		38,54,915
Less: Administrative, selling and Finance Expenses	5,75,804	
Contribution to National Defence Fund	20,000	
Particulars	`	`
Directors Fees	54,780	
Interest on Debentures	21,380	
Depreciation of Fixed Assets	4,69,713	11,41,677
Net Profits for Managerial Remuneration		27,13,238

1. Profit on sale of Plant: (1 mark)

it is assumed that the cost of plant and Machinery is over and above ` 40,000 (given a WDV of ` 32,000 and the value realized being ` 40,000) Profits to extent of the difference between the Original Cost and WDV can be considered for the purpose of determining the Net Profit. Hence in this case, the entire ` 8,000 has been considered for determining the Net Profit.

2. Maximum Remuneration Payable to the Managing Director: (1 mark)

= 5% of Net Profit (Computed) = 5% x ` 27, 13, 238 = ` 1, 35,662. However, Managing Director's Remuneration as per the above P & L Account is ` 3, 70,500.

3. Maximum Remuneration Payable under schedule V (Inadequate Profits): (1 mark)

Or its profits are Inadequate; it may pay Remuneration to any Managerial Person, within the limits specified in Schedule Y. The celling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Negative or Less than ` 5 Crores", the Maximum Permissible Remuneration is ` 60, 00,000 p.a.

4. Audit Observation: (1 mark)

Remuneration of ` 3,70,500 paid to Managing Director exceeds the limits $^{u}/_{s}$ 197, but is within the limits specified by Schedule V.

Question 5 (5 marks)

a. Problem related to Dishonour of cheque: Liability of Promoter: According to Section 138 of the Negotiable Instruments Act, 1881 where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from/out of that account for discharging any debt or liability, and if it is dishonoured by banker on sufficient grounds, such person shall be deemed to have committed an offence and shall be liable. (2 marks)

   In the instant case, Mr. Bean, a promoter has taken a loan on behalf of company. He is neither a director nor a person in-charge of the Company. He sent a cheque from the company's account which was subsequently dishonoured. In this case , Mr. Bean, the promoter is neither a director nor a person-in-charge of the company and is not connected with the day-to-day affairs of the company and had neither opened nor is operating the bank account of the company. Further, the cheque, which was dishonoured, was also not drawn on an account maintained by him but was drawn on an account maintained by the company. Therefore, Mr. Bean, has not committed an offence under section 138 of the Negotiable Instruments Act, 1881 and he cannot be held liable for dishonor of the said cheque. (3 marks)

Question 6 (5 marks)

a. (i) Person to be called as a holder: As per section 8 of the Negotiable Instruments Act, 1881, 'holder' of a Negotiable Instrument means any person entitled in his own name to the possession of it and to receive or recover the amount due thereon from the parties thereto. (2 ½ marks)

   On applying the above provision in the given cases-

   1. 'M' is not a 'holder' because to be called as a 'holder' he must be entitled not only to the possession of the instrument but also to receive the amount mentioned therein.

   2. No, 'M' is not a holder. While the agent may receive payment of the amount mentioned in the cheque, yet he cannot be called the holder thereof because he has no right to sue on the instrument in his own name. (2 ½ marks)

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